

ORDER NO. 2732

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Periodic Reporting
(Proposal Six)

Docket No. RM2015-15

ORDER APPROVING ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSAL SIX)

(Issued September 28, 2015)

I. INTRODUCTION

This Order addresses a Postal Service petition filed pursuant to 39 C.F.R. § 3050.11 seeking approval of Proposal Six, which concerns a change to the methodology used for measuring the national totals of revenue, pieces, and weight in the Revenue, Pieces, and Weight (RPW) Report for Click-N-Ship (CNS) Priority Mail.¹

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal Six), July 27, 2015 (Petition). In addition, the Postal Service filed an application for non-public treatment of a library reference. Notice of Filing of USPS-RM2015-15/NP1 and Application for Nonpublic Treatment, July 27, 2015 (Notice). The Notice incorporates by reference the Application of the United States Postal Service for Nonpublic Treatment of Materials contained in Attachment Two to the United States Postal Service Fiscal Year 2014 Annual Compliance Report. *Id.* at 1; see Docket No. ACR2014, United States Postal Service FY 2014 Annual Compliance Report, December 29, 2014, Attachment Two. See 39 C.F.R. part 3007 for information on access to non-public material.

For the reasons discussed below, the Commission approves Proposal Six.

This Order provides background information, describes Proposal Six, addresses related filings, and presents the Commission's analysis and conclusion.

II. BACKGROUND

Proposal Six changes the methodology used for measuring the national totals of RPW for CNS Priority Mail in the RPW Report. Petition at 3. CNS is a Postal Service shipping tool that allows customers to create, print, and pay for postage labels online. Petition at 4. Additionally, customers receive commercial base pricing and can order free supplies and schedule free pickup of mail pieces. *Id.* The RPW Report is the main source of input for billing determinants used by the Commission to determine the product's compliance with 39 U.S.C. §§ 3622 and 3633.²

III. PROCEDURAL HISTORY

On July 29, 2015, the Commission provided notice of the Postal Service's Petition, established the instant docket for consideration of Proposal Six, appointed a Public Representative, and provided the public with an opportunity to comment.³

On August 6, 2015, the Public Representative filed a motion requesting the Commission issue an information request concerning several topics: identification of the Annual Compliance Report (ACR) library references that would be impacted by Proposal Six; the impact of Proposal Six on overall Priority Mail RPW data; and the potential impact of Proposal One methodological changes on CNS Priority Mail RPW

² See Public Representative Comments on a Proposed Change in Analytical Principles Used in Periodic Reporting (Proposal Six), September 2, 2015, at 3 (PR Comments).

³ Order No. 2624, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Six), July 29, 2015.

measurement.⁴ On August 10, 2015, the Postal Service filed a response to the Public Representative's Motion, answering the questions presented and arguing the Motion should be treated as moot or denied based on its filing of a response.⁵

CHIR No. 1. On August 11, 2015, Chairman's Information Request No. 1 was issued.⁶ It sought clarification on several topics including the: calculations of specific cells in an Excel spreadsheet;⁷ percentage of CNS pieces currently sampled by the Origin Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW); frequency at which the weight per piece for CNS will be calculated under the ODIS-RPW; frequency at which the distribution key for extra services will be updated; ACR library references impacted by Proposal Six; percentage difference in revenue and pieces in the ODIS-RPW versus census comparison; and the potential impact of Proposal One on Proposal Six. See generally *CHIR No. 1*.

Postal Service Response to CHIR No. 1. In its Response to CHIR No. 1, the Postal Service confirms that some calculations in Excel spreadsheet "Prop 6.CNS.Public.Tables.xlsx" do not include insurance.⁸ The Postal Service indicates that the ODIS-RPW estimates are currently used to calculate RPW for 94.2 percent of the total CNS volume. Postal Service Response, question 2. The Postal Service states the weight per piece for CNS Priority Mail using the ODIS-RPW would be

⁴ Public Representative Motion for Issuance of Information Request, August 6, 2015 (Motion); see also Docket No RM2015-9, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal One), June 12, 2015 (Proposal One).

⁵ Response of the United States Postal Service to Motion of the Public Representative Seeking Issuance of an Information Request, August 10, 2015 (Postal Service Response to Motion).

⁶ Chairman's Information Request No. 1, August 11, 2015 (CHIR No. 1). The Public Representative's questions and the Postal Service Response to Motion were considered by the Commission in its development of CHIR No. 1. As a result, the Motion is denied as moot.

⁷ The clarification concerned cells E13:G13 in Excel spreadsheet "Prop 6.CNS.Public.Tables.xlsx." Those cells related to CNS transactions. See "Prop 6.CNS.Public.Tables.xlsx." The Commission sought to confirm that the calculations in those cells did not include the actual insurance fees associated with the extra services.

⁸ Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 1, August 21, 2015, question 1 (Postal Service Response).

calculated quarterly. *Id.* question 3. The Postal Service explains that the difference between ODIS-RPW estimates and census estimates could occur for several reasons, but most likely “relates to the intrinsic nature of comparing two estimates” and that each have “some imprecision.” *Id.* question 4. The Postal Service states that “[t]he distribution key for allocating refunds for extra service[s] will be updated annually.” *Id.* question 5.

The Postal Service identifies the library references of the ACR that would be affected by Proposal Six, but maintains that Proposal Six “would neither expand nor contract the list of ACR folders that rely on RPW inputs;” that “it would not change how those inputs are used within those folders;” and that “[i]n the majority of instances, the expected effects would be either minor or trivial.” *Id.* question 6. Finally, the Postal Service explains that while Proposal One’s adoption would change the [Booked Revenue Adjustment Factor (BRAf)] and “result in a change in the BRAf-adjusted CNS estimates,” should Proposal Six also be adopted, “the portion of CNS revenue to which the BRAf is applied would be substantially reduced.” *Id.* question 7.

IV. PROPOSAL SIX

A. Postal Service Proposal

Summary. Under Proposal Six, the data used for measuring RPW for non-insured CNS Priority Mail transactions would switch from the ODIS-RPW sampling system to census data. *See generally* Petition. In addition, CNS census activity would be adjusted to reflect refund revenue from CNS Priority Mail. *Id.* at 5.

Current methodology. Currently, the Postal Service relies on two sources when measuring the national totals of RPW for CNS Priority Mail: ODIS-RPW statistical sampling data and census data. *Id.* at 3.

The ODIS-RPW is a probability-based destinating mail sampling system and is used to collect data on CNS Priority Mail transactions not associated with insured extra services, including transactions where insurance is included at no extra charge. *Id.* at 3,

4. The Postal Service states that “[w]hen an ODIS-RPW data collector encounters a sample mail piece, they must search for [CNS] markings in the indicia area” and that, due to the “fast moving time frame” involved with mail operations, “data collection is always challenging” and unintended errors can occur. *Id.* at 5. In addition, the Postal Service notes that the ODIS-RPW, as a statistical sampling system, produces point estimates with sampling error. *Id.*

Census data are data that include all possible observations in a population, in contrast to sample data, which includes observations of only a subset of a population. CNS census data will contain all CNS transactions, unlike ODIS-RPW, which contains only a subset of CNS transactions. Currently, census data are used for CNS Priority Mail transactions involving insured extra services and are provided by reports from the Retail Data Mart (RDM). *Id.* at 3, 5. The Postal Service states that, as the RDM is the current reporting system for Point of Sale and Self Service Kiosk data used in its RPW reports, it has a proven track record of providing accurate measurements. *Id.* at 5-6.

Proposed methodology. Under Proposal Six, the Postal Service would no longer use the ODIS-RPW sampling data for CNS Priority Mail assessment purposes; instead all RPW data for CNS Priority Mail will be derived from CNS census data, with the exception of weight for flat rate products that will be estimated by the ODIS-RPW in lieu of using the RDM-reported weight.⁹ In addition, customers who create CNS labels can receive a refund if the label is not used. *Id.* at 6.

Refunds created within the CNS application are reported to the Postal Service’s General Ledger account 41436.000 as part of the National Meter Account Tracking System. *Id.* A report will be generated that includes the refund amount and the number of refunded transactions by product. *Id.* The report will not provide the weight associated with refund transactions or separate out the extra service-related refund amounts. *Id.* Refund revenue represents only 2 percent of total CNS Priority Mail

⁹ See *generally* Petition. As weight is not required for flat rate products within the CNS system, the ODIS-RPW estimated weight per piece would be used to estimate weight for flat rate products. *Id.* at 1-2.

revenue. *Id.* Proposal Six sets forth the process for allocating refunds to the parent products and extra services. *Id.* at 7.

Rationale. The Postal Service asserts that switching to census data will “provide[s] a complete source of transactional-level data for the mail piece revenue and volume characteristics, and their associated extra services needed for RPW reporting.” *Id.* It will also provide a more accurate report of weight for flat rate products and “for adjusting for revenue and transactions to align with the Accounting treatment of refund revenue.” *Id.*

Impact. The Postal Service provides a comparison of the current and proposed methodologies during the first quarter of Fiscal Year (FY) 2015 in order to show the impact of replacing the ODIS-RPW statistical sampling estimates with census data. *Id.* at 7. The results show that by using the proposed method for the CNS portion of Priority Mail, revenue, volume, and weight would have decreased by 13.7 percent, 14.3 percent, and 4.4 percent, respectively. *Id.* at 8; *see also* “Prop 6.CNS.Public.Tables.xlsx.” Extra service revenue would have increased by \$144,000 in the first quarter of FY 2015. Petition at 8; *see also* “Prop 6.CNS.Public.Tables.xlsx.”

The Postal Service states “because total revenue must equal book revenue, any change in these specific estimates would ultimately be offset by minor changes in the revenue estimates for many other categories through the mechanism of the BRAF process.” Petition at 8.

B. Additional Filings

1. Public Representative Comments

The Public Representative concludes that the proposed adjustments appear reasonable and agrees with the Postal Service’s assertion that, for reporting purposes, utilizing census data should provide more accurate data than a statistical sampling

system. PR Comments at 4; see *also* Petition at 5. However, the Public Representative does note a few concerns.

The Postal Service, in its non-public filing, provided a comparison RPW for multiple mail categories using the current and proposed methodologies. The Public Representative indicates that there is one mail category reported under the current methodology that is not reported under the proposed methodology. PR Comments at 5. She seeks clarification as to how the Postal Service will “account for CNS activities related to the omitted mail category.” *Id.* at 5-6.

The Public Representative also questions why the Postal Service used an intermediate revenue number, instead of an adjusted figure, for CNS Priority Mail non-insured transactions when calculating the impact of CNS Priority Mail revenue on Priority Mail as a whole. *Id.* at 6. Finally, she asserts that documentation submitted by the Postal Service does not describe how refund distribution will be handled and states “additional clarification would be beneficial.” *Id.*

2. Postal Service Reply Comments

On September 11, 2015, the Postal Service filed reply comments addressing the Public Representative’s concerns.¹⁰ The Postal Service indicates that the omitted mail category pointed out by the Public Representative was “rolled in to the much larger category” because, at the time of filing, “[RDM] reports for CNS activity did not separately report the smaller category, while the ODIS-RPW estimates did.” Postal Service Reply Comments at 1. If approved, the RDM will be implemented as the RPW source for CNS activity and will separately report both the smaller and larger categories. *Id.* at 1-2.

The Public Representative suggests an adjusted figure should have been used for CNS Priority Mail non-insured transactions when calculating the impact of CNS

¹⁰ Reply Comments of the United States Postal Service Regarding Proposal Six, September 11, 2015 (Postal Service Reply Comments).

Priority Mail revenue on overall Priority Mail. PR Comments at 6. The Postal Service argues that using the adjusted figure “has no material effect on the estimated overall impact of the change.” Postal Service Reply Comments at 2.

As to the Public Representative’s question concerning the treatment of refund distribution under the current methodology, the Postal Service indicates “no such distribution is necessary under the current methodology” and that the “need for a refund distribution only arises under the new methodology.” *Id.* The Postal Service states that this is because, under the current methodology, the ODIS-RPW data collectors see CNS mail pieces at the destination post office only if the pieces were actually mailed and thus the created CNS label was actually used. *Id.* Refund distribution will arise under the new methodology because CNS labels will be generated but not used for mailing, therefore the RPW of the CNS system data must be adjusted for customers seeking refunds for those unused labels. *Id.* at 2-3.

V. COMMISSION ANALYSIS

While the ODIS-RPW has been traditionally used to assist the Postal Service in estimating RPW for certain mail categories where the data are not available from the Postal Service’s revenue accounting system or postage statements, it produces estimates that are subject to sampling error. Because of this, the Commission has previously encouraged the Postal Service to expand the use of census data for RPW.¹¹ The Commission therefore concurs with both the Postal Service and Public Representative, and finds that switching to census data provided in reports from the RDM would result in equal or improved data quality.

The Commission also finds that replacing the ODIS-RPW statistical sampling data with census data reported by the RDM will provide a more complete source of transactional-level data for the mail piece revenue and volume characteristics and their

¹¹ PR Comments at 4; *see also, e.g.*, Docket No. RM2009-10, Order No. 339, Order on Analytical Principles Used in Periodic Reporting (Proposals Three Through Nineteen), November 13, 2009, at 39.

associated extra services needed for RPW reporting. In addition, the Commission concurs with the Postal Service's assertion that the change will also provide a process that more accurately reports weight data for flat rate products and adjusts revenue and transactions to align with the accounting treatment of refund revenue.

In conclusion, the Commission approves the Postal Service's proposal to change the methodology used in measuring RPW for CNS Priority Mail from the ODIS-RPW statistical sampling data to census data. The Commission also approves the use of ODIS-RPW statistical sampling data in calculating the weight per piece for flat rate products and the proposed adjustment for CNS refunds.

VI. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposal Six.

By the Commission.

Ruth Ann Abrams
Acting Secretary